FIRST FLEXIBLE NO. 4 PLC

ANNUAL REPORT

FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2003

Company number: 4176542

FIRST FLEXIBLE NO. 4 PLC

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COMPANY INFORMATION

Directors	J P J Fairrie J G Gemmell SPV Management Limited
Secretary	J G Gemmell
Company Number	4176542
Registered Office	St Catherines' Court Herbert Road Solihull West Midlands B91 3QE
Registered auditors	KPMG Audit Plc 1 Canada Square Canary Wharf London E14 5AG
Bankers	Barclays Bank PLC Financial Services and Structured Finance Team PO Box 544 54 Lombard Street London EC3P 3AH

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REPORT OF THE DIRECTORS

FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2003

The directors present their report on the affairs of the company, together with the audited financial statements of the company for the period ended 30 September 2003. The previous period is for the twelve months ended 31 December 2002.

Principal activity and business review

The company was established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

The principal activity during the period was the ownership of pools of residential mortgages.

The servicing and administration responsibilities for the company are undertaken by Britannic Money plc ("BM"), the servicer. On 30 June 2003 BM was acquired by The Paragon Group of Companies PLC ("Paragon") and BM subsequently changed its name to Mortgage Trust Limited ("MTL"). Following this the company changed the registered office and its financial period end to 30 September from 31 December to bring it in line with MTL.

The results for the period are set out in detail on page 5. A dividend of £40k was declared and paid in the period (2002:nil).

Directors and their interests

The directors who served during the period and up to the date of this report were as follows:

J P J Fairrie
J G Gemmell (Appointed 30 June 2003)
P R Rogers (Resigned 30 June 2003)
SPV Management Limited

M McDermott is an alternate director to J P J Fairrie.

The company is a wholly owned subsidiary of Arianty Holdings Limited, of which J P J Fairrie, J G Gemmell, M McDermott and SPV Management Limited are directors.

According to the Register of Directors' Interests none of the directors had, at any time during the period, any interests in the share capital of the company or group. The shares in Arianty Holdings Limited are held by SPV Management Limited under a Declaration of Trust for charitable purposes.

None of the directors received any remuneration for their services to the company apart from SPV Management Limited. Under the terms of a Corporate Services Agreement as amended by side letters, SPV Management Limited is contracted to receive fees of £5k (2002: £5k) per annum. M McDermott, J P J Fairrie and A F Raikes are all directors of SPV Management Limited.

Creditor payment policy

The company's policy concerning the payment of its trade creditors is to pay in accordance with its contractual and other legal obligations.

Due to the nature of the business, the main creditors are the noteholders. Principal and interest is repaid monthly on the due date in accordance with the agreements in place. Other creditors are paid by the servicer which then recharges the company for the expense. The full balance due to the servicer is repaid monthly after the payment to the noteholders.

FIRST FLEXIBLE NO. 4 PLC

REPORT OF THE DIRECTORS (Continued)

FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2003

Auditors

A resolution to reappoint KPMG Audit Plc as auditors will be proposed at the annual general meeting of the company.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board

SPV Management Limited
Director

20 November 2003

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF FIRST FLEXIBLE NO. 4 PLC

We have audited the financial statements on pages 5 to 16.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 September 2003 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 Canada Square
Canary Wharf
London
E14 5AG

20 November 2003

FIRST FLEXIBLE NO. 4 PLC

PROFIT AND LOSS ACCOUNT

FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2003

	Notes	9 months 2003 £'000	12 months 2002 £'000
Continuing operations			
Turnover	3	**18,406**	27,144
Cost of funding	4	**(15,695)**	(24,484)
Gross Profit		**2,711**	2,660
Administrative expenses		**(3,123)**	(3,286)
Operating loss		**(412)**	(626)
Interest receivable	5	**493**	794
Profit on ordinary activities before taxation	6	**81**	168
Tax on profit on ordinary activities	7	**(57)**	(135)
Profit on ordinary activites after taxation		**24**	33
Dividends paid		**(40)**	-
Retained (loss) / profit for the financial period	11	**(16)**	33

The company has no recognised gains or losses other than those above and therefore no separate statement of total recognised gains and losses has been presented.

FIRST FLEXIBLE NO. 4 PLC

BALANCE SHEET

AS AT 30 SEPTEMBER 2003

	Notes	30 Sep 2003 £'000	31 Dec 2002 £'000
ASSETS			
Mortgage advances			
Mortgage advances	**8**	**458,786**	466,845
Current assets			
Debtors	**9**	**1,491**	593
Cash at bank and in hand		**26,782**	27,022
		28,273	27,615
Total assets		**487,059**	494,460
LIABILITIES			
Capital and reserves			
Called up share capital	**10**	**12**	12
Profit and loss account	**11**	**31**	47
Equity shareholders' funds	**12**	**43**	59
Creditors			
Amounts falling due within one year	**13**	**1,718**	2,032
Amounts falling due after more than one year	**14**	**485,298**	492,369
Total liabilities and capital		**487,059**	494,460

The financial statements on pages 5 to 16 were approved by the Board on 20 November 2003 and signed on its behalf by:

SPV Management Limited
Director

1. Restriction on operations

The company was established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

The ability of the company to engage in any activity other than those associated with the purchase and servicing of the pool of mortgages is restricted by agreements entered into by the company with, among others, The Chase Manhattan Bank in its capacity as Trustee for the noteholders.

Under the terms of the servicing agreement, the company and the Trustee each appointed MTL to service the mortgages under the floating rate notes.

The assets of the company are subject to a fixed and floating charge in favour of the Trustee for the noteholders.

2. Principal accounting policies

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below:

Basis of accounting
The financial statements are prepared in accordance with the historical cost convention.

Format of financial statements
The cost of funding heading within the profit and loss account has been adapted from that prescribed by Schedule 4 to the Companies Act 1985 in view of the nature of the business.

Turnover
Turnover represents interest receivable on mortgage loans.

Servicing fees
Servicing fees are payable by the company to the servicer under the terms of a servicing agreement. The servicing fee is calculated on the outstanding mortgage portfolio as defined in the servicing agreement. MTL is also entitled to a deferred consideration based on the excess earnings as defined in the mortgage sale agreement.

Taxation
The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Cashflow statement
The company is a wholly owned subsidiary of Arianty Holdings Limited and the cashflows of the company are included in the consolidated group cashflow statement of Arianty Holdings Limited. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 ("FRS1") (Revised) from publishing a cashflow statement.

Related party disclosures
Under the provisions of Financial Reporting Standard No. 8 ("FRS8"), the company has taken advantage of the exemption provided (for subsidiary undertakings whose voting rights are more than 90% controlled within the group) from disclosing group related party transactions. The consolidated financial statements of Arianty Holdings Limited, in which these results are included, are publicly available.

2. Principal accounting policies (continued)

Mortgage advances
Mortgage advances comprise loans that are secured by way of mortgages over freehold and leasehold residential properties located in England, Wales and Scotland. The mortgages are subject to a fixed charge in favour of the Trustee for the noteholders.

Losses arising from the possession and subsequent sale of properties are partly borne by third party insurers.

Mortgage advances have been presented separately on the face of the balance sheet rather than as part of current assets. In the opinion of the directors, this departure from the format of Schedule 4 of the Companies Act 1985 is required to give a true and fair view of the state of the company's affairs, since to present mortgage advances as part of current assets would not fairly reflect the liquidity of these assets.

Floating rate notes
The floating rate notes' outstanding principal balance declines over time as the proceeds from redemptions on mortgage advances are used to repay noteholders, along with accrued interest, on each monthly interest payment date. Costs relating to the issue of the floating rate notes are deducted from the principal balance on the notes. These costs are charged to the profit and loss account in line with the expected redemptions of the underlying floating rate notes. Costs are fully amortised by the earliest date at which the option to redeem the floating rate notes may be exercised.

The floating rate notes fall due for repayment in full in July 2036 and comprised, at issue, of £460m Class A notes, £35m Class M notes and £5m Class B notes. The Class A notes bear interest at a margin of 27 basis points over one month sterling LIBOR until July 2008 when the interest is adjusted to a margin of 54 basis points over one month sterling LIBOR. The Class M notes bear interest at a margin of 85 basis points over one month sterling LIBOR until July 2008 when the interest is adjusted to a margin of 170 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 180 basis points over one month sterling LIBOR until July 2008 when the interest is adjusted to a margin of 280 basis points over one month sterling LIBOR. Interest is determined monthly on the first business day of each month in each period for the next succeeding month.

Subordinated loan
The company has entered into a subordinated loan agreement with MTL, the funds from which were used to pay the costs and provide credit enhancement associated with its purchase of a pool of mortgages and issuance of floating rate notes.

The loan may be repaid in whole or in part provided that the company has sufficient assets to meet its obligations on the floating rate notes and other liabilities. The loan shall be repaid in full in July 2036, provided that all payments then due in respect of the floating rate notes have been paid or otherwise provided for in full. If, in July 2036, the company has insufficient funds after paying the floating rate notes in full, it shall only be obliged to repay the loan to the extent of funds available and the company shall thereafter be released from any further obligation to make any further repayments.

3. Turnover

Contributions to turnover and profit on ordinary activities before taxation were derived from the company's principal activity, which was carried out in England, Wales and Scotland.

4. Cost of funding

	9 months 2003 £'000	12 months 2002 £'000
Interest charged on floating rate notes	**14,511**	21,255
Issue costs	**323**	520
Other costs	**861**	2,709
	15,695	24,484

5. Interest receivable

Interest receivable comprises interest earned on short term deposits.

6. Profit on ordinary activities before taxation

	9 months 2003 £'000	12 months 2002 £'000
Profit on ordinary activities before taxation is stated after charging:		
Servicing fees payable	**353**	504
Corporate service fee – SPV Management Limited	**4**	5
Auditors' remuneration – audit	**6**	6
Auditors' remuneration - other services	**3**	3

The company has no employees and, other than the fee noted above, the directors received no remuneration during the period.

7. Taxation on profit on ordinary activities

	9 months 2003 £'000	12 months 2002 £'000
The tax charge is based on the profit for the period and comprises:		
UK Corporation tax at 30% (2002: 30%)	**10**	14
Under provision from prior years	**47**	121
	57	135

7. Taxation on profit on ordinary activities (continued)

The current tax charge for the period is higher than (2002: higher than) the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below:

	9 months 2003 £'000	12 months 2002 £'000
Profit on ordinary activities before tax:	**81**	168
Profit on ordinary activities multiplied by standard rate tax of 30% (2002: 30%)	**24**	50
Effects of:		
Other timing differences	**(14)**	(36)
Under provision from prior years	**47**	121
Total current tax charge	**57**	135

8. Mortgage advances

The movement during the period was as follows:	**30 Sep 2003 £'000**	31 Dec 2002 £'000
At start of the period	**466,845**	485,989
Further acquisitions during period	**84,379**	126,209
Net movements in loan provisions and redemptions during the period	**(92,438)**	(145,353)
Mortgage advances at end of period	**458,786**	466,845

Mortgage advances are all due to be repaid at various times before 2036 and may be redeemed at any time at the option of the borrower.

9. Debtors

	30 Sep 2003 £'000	31 Dec 2002 £'000
Amounts falling due within one year		
Other debtors	**1,330**	476
Prepayments and accrued income	**161**	117
	1,491	593

10. Called up share capital

	30 Sep 2003 £'000	31 Dec 2002 £'000
Authorised		
100,000 Ordinary shares of £1 each	100	100
Allotted, 25p called up and paid		
50,000 Ordinary shares of £1 each	12	12

11. Profit and loss account

	30 Sep 2003 £'000	31 Dec 2002 £'000
At start of the period	47	14
Retained (loss) / profit for the period	(16)	33
At end of the period	31	47

12. Reconciliation of equity shareholders' funds

	30 Sep 2003 £'000	31 Dec 2002 £'000
Opening equity shareholders' funds	59	26
Profit on ordinary activities after taxation	24	33
Dividends paid	(40)	-
Closing equity shareholders' funds	43	59

13. Creditors: amounts falling due within one year

	30 Sep 2003 £'000	31 Dec 2002 £'000
Amounts owed to group undertakings	7	104
Corporation tax	10	17
Accruals and deferred income	30	73
Other creditors	1,671	1,838
	1,718	2,032

14. Creditors: amounts falling due after more than one year

	30 Sep 2003 £'000	31 Dec 2002 £'000
Floating rate notes due 2036 (see note (a) below)	**476,386**	482,037
Subordinated loan	**2,030**	6,063
Deferred purchase consideration owed to a group undertaking	**6,804**	4,050
Deferred income hedge Reserve	**8**	83
Deferred income discount Reserve	**70**	136
	485,298	492,369

(a) Floating rate notes comprise:

	30 Sep 2003 £'000	31 Dec 2002 £'000
Principal balance outstanding	**477,144**	483,118
Unamortised issue costs	**(758)**	(1,081)
	476,386	482,037

	30 Sep 2003 £'000	31 Dec 2002 £'000
The movement on floating rate notes during the period was:		
As at start of the period	**482,037**	495,572
Principal repaid during the period	**(5,974)**	(14,055)
Issue costs charged to the profit and loss account	**323**	520
As at end of period	**476,386**	482,037

15. Related Party Transactions

The company has identified the following transactions which are required to be disclosed under the terms of Financial Reporting Standard 8, "Related Party Transactions" ("FRS8").

Transactions with MTL

In July 2001 the company was granted a subordinated loan of £14.35million from MTL, a group under common control as defined by FRS8. At the balance sheet date the MTL group was owed £2.1m (2002: £6.3m) in relation to the subordinated loan, plus £71k (2002: £70k) for mortgage fees and insurance, by the company. During the period MTL earnt £353k (2002: £504k) in relation to servicing fees. At the balance sheet date the company owed £39k (2002: £38k) to MTL in relation to servicing fees.

16. Financial Instruments

Market Risk Management

Market risk is managed by the Asset and Liability Committee ("ALCO") of MTL and Paragon. The ALCO is composed of senior management and meets regularly to review performance, positions and market conditions and to make strategic decisions regarding interest rate risk, liquidity and capital management. The policy is implemented by the Treasury Department of MTL and Paragon.

Interest rate risk is the company's most significant market risk and arises from mismatches between the repricing profiles of assets and liabilities. Interest rate risk is quantified, and limits set, based on the effect that a given movement in interest rates may have on the profitability of the company. Overall planning in relation to interest rate risk is performed using a risk management system, which allows gap analysis reports to be produced on a regular basis together with sensitivity of the net exposure to a shift in interest rates. The company uses interest rate derivatives to manage interest rate risk. The company does not use derivatives for creating risk that does not arise in the underlying business and the company does not trade in derivatives. Consequently all derivatives are classified as hedging contracts and accounted for using hedge accounting.

Credit Risk Management

Credit risk during the period was monitored by the Credit Department of MTL and Paragon, and arises from the company's lending activities. MTL and Paragon are committed to maintaining a consistent credit culture based on sound lending principles because this is the best safeguard against any decline in the property market in particular or the economy as a whole.

The approval process for secured loans takes into account the ratio of the loan amount to the value of the mortgaged property. MTL and Paragon operate comprehensive monitoring systems that assist management in identifying any deterioration in loan quality. The quality of the loan book is reviewed on a regular basis.

Liquidity Management

It is the company's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the company and to meet regulatory requirements. Management consider the period end position satisfactorily reflects the policies and objectives set out above.

Interest rate risk profile

The table below gives an indication of the interest rate risk profile of the company. Items are included in various time bands based on the earlier of the repricing or maturity date taking account of any amortisation of principal.

16. Financial Instruments (continued)

As at 30 September 2003	**Less than 3 months**	**Between 3-6 months**	**Between 6-12 months**	**Over 1 year but not more than 5 years**	**Non Interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets						
Mortgage advances	376,972	10,724	1,846	69,264	(20)	**458,786**
Other assets	26,782	-	-	-	1,491	**28,273**
	403,754	10,724	1,846	69,264	1,471	**487,059**
Liabilities						
Floating rate notes	(477,144)	-	-	-	758	**(476,386)**
Other liabilities	-	-	-	-	(10,630)	**(10,630)**
Shareholders' funds	-	-	-	-	(43)	**(43)**
	(477,144)	-	-	-	(9,915)	**(487,059)**
Off balance sheet items	(85,405)	8,904	12,027	64,474	-	-
Interest rate risk profile	12,015	1,820	(10,181)	4,790	(8,444)	-

As at 31 December 2002	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 1 year but not more than 5 years	Non Interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Mortgage advances	351,197	44,551	47,523	23,590	(16)	466,845
Other assets	27,022	-	-	-	593	27,615
	378,219	44,551	47,523	23,590	577	494,460
Liabilities						
Floating rate notes	(483,118)	-	-	-	1,081	(482,037)
Other liabilities	-	-	-	-	(12,364)	(12,364)
Shareholders' funds	-	-	-	-	(59)	(59)
	(483,118)	-	-	-	(11,342)	(494,460)
Off balance sheet items	(123,846)	45,486	61,572	16,788	-	-
Interest rate risk profile	18,947	(935)	(14,049)	6,802	(10,765)	-

The other liabilities fall due within one year. See note 2 for the maturity profile of the floating rate notes.

16. Financial Instruments (continued)

Fair value of financial instruments

The table below shows the estimated fair value and the carrying value for each major category of assets and liabilities in the balance sheet at the balance sheet date. The fair value of a financial instrument is the amount at which it could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. Where external or quoted market prices were not available the fair values were estimated using discounted cash flow techniques based on interest rates prevailing at the balance sheet date. Financial instruments with short term maturities or near term re-pricing terms are assumed to have fair values equal to their carrying amounts.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages and other balance sheet items whose book and fair values differ at the balance sheet date.

As at end of period	**Carrying Amount 30 Sep 2003 £'000**	**Fair Value 30 Sep 2003 £'000**	Carrying Amount 31 Dec 2002 £'000	Fair Value 31 Dec 2002 £'000
On balance sheet instruments				
Floating rate notes	(476,386)	(476,386)	(482,037)	(482,037)
Off balance sheet instruments				
Derivatives	-	285	-	(404)

At the balance sheet date the company had interest and base rate swaps in place with a notional value of £402million (2002: £438million) with a fair value of £285k (2002: £(404)k).

Gains and losses on hedges

All derivative contracts are accounted for as hedges. Changes in the fair value of instuments used as hedges are not recognised in the financial statements until the hedge position matures. Set out below is an analysis of these unrecognised gains and losses.

	Gains £'000	(Losses) £'000	Total net gains/(losses) £'000
Unrecognised gains and losses at 1 January 2003	-	(404)	(404)
Gains and losses arising in previous periods that were recognised in the period	-	404	404
Gains and losses arising before 1 January 2003 that were not recognised in the period	-	-	-
Gains and losses arising in the period that were not recognised in the period	334	(49)	285
Unrecognised gains and losses on hedges at 30 September 2003	334	(49)	285
Of which:			
Gains and losses expected to be recognised in the period to 30 September 2004	224	(46)	178
Gains and losses expected to be recognised in the period to 30 September 2005	110	(3)	107

17. Ultimate parent undertaking

The immediate parent undertaking is Arianty Holdings Limited.

The smallest and largest group into which the company is consolidated is that of Arianty Holdings Limited, registered in England and Wales.

The shares in Arianty Holdings Limited are held by SPV Management Limited under a Declaration of Trust for charitable purposes. The directors regard Arianty Holdings Limited as the ultimate parent undertaking.

Copies of the consolidated financial statements may be obtained from the Company Secretary, St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.